



**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Rulemaking 06-04-009  
(Filed April 13, 2006)

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## **SACRAMENTO MUNICIPAL UTILITY DISTRICT'S REPLY COMMENTS ON THE PROPOSED DECISION OF COMMISSIONER PEEVEY**

The Sacramento Municipal Utility District (SMUD) hereby provides these reply comments in response to the filings of other parties on the Proposed Decision of President Peevey providing an Interim Opinion on Greenhouse Gas Regulatory Strategies (PD). After reviewing the comments of various parties on the PD, SMUD reached the following conclusions: 1) the focus on market mechanisms should be a secondary consideration when the primary reductions will come from traditional directives such as mandated energy efficiency programs and renewable portfolio standards, 2) the retail service providers (RSP) should use their ratepayer funds for the extensive capital investments necessary to make structural changes to the electric system instead of payments into an auction, 3) the proposed use of E-tags as an emissions tracking system has serious flaws and will need to be combined with contractual information for source specific contracts to accurately attribute emissions to imported power, and 4) the natural gas sector should be treated in the same way as the electric sector so that other sectors will not be required to pick up the emissions reductions that would otherwise be required of the natural gas sector.

### **I. THE COMMISSIONS SHOULD FOCUS ON DESIGNATED PROGRAMS THAT WILL PROVIDE THE GREATEST SUBSTANTIVE CHANGES TO THE CARBON CONTENT OF THE ENERGY SECTOR**

A market based system is unnecessary and could very well result in additional costs without the corresponding benefit of reducing carbon. California should use the tools that have produced the greatest environmental gains to reduce the greenhouse gas impact of the energy sector in California including: 1) programs to improve energy efficiency such as the Title 24 building standards, 2) programs to increase the level of renewable generation such as the renewable portfolio standard, 3) programs to reduce the carbon from the transportation sector such as the low carbon fuel standard, and 4) programs to improve the efficiency of vehicles such as AB 1493 (the Pavley Bill).

Marginal cost price signals are insufficient to drive the large capital intensive projects like new transmission needed to reach renewable resources. As stated by Natural Resources Defense Council and the Union of Concerned Scientists (NRDC/UCS), "the

'deliverer' approach provides weaker incentives for long-term investments in emission reduction strategies."<sup>1</sup> This sentiment is echoed by The Green Power Institute (GPI),

One potential problem with using a system based on price signals alone in the capital-cost-intensive electricity sector is that this sector is generally known to have a low elasticity of demand, which means that it takes a relatively large increase in price in order to elicit a desired increment of decrease in demand for carbon-intensive energy sources.<sup>2</sup>

The Center for Energy Efficiency and Renewable Technologies (CEERT) maintains that "direct emissions reduction measures and integrated resource planning must be the focus for reducing GHG emissions in the electricity sector."<sup>3</sup> Thus, there is both broad support for and broad recognition of the important role played by direct regulation in reducing carbon emissions from the energy sector. The cap-and-trade system should remain a small component of the overall strategy and should not consume the resources better spent on direct emission reduction strategies.

SMUD finds it telling that those who represent the natural gas industry do not want to participate in the market. When given the option of providing energy efficiency measures over a market, the natural gas entities select energy efficiency.<sup>4</sup> At the CARB scoping workshop on Friday, February 29<sup>th</sup>, SMUD was surprised to hear representatives from the oil industry claim support for auctions *as long as those auctions did not include transportation fuels* (emphasis added). They wanted to rely entirely on the low carbon fuel standard and wanted no part of the auction for their fuels. This same type of certainty and consistency gained from regulatory parameters such as a cap may prove to be the most successful and least cost reduction strategy for reducing greenhouse gas emissions from the electric industry.

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<sup>1</sup> Comments of NRDC/UCS on the Proposed "Interim Opinion of Greenhouse Gas Regulatory Strategies". at 8 (Feb 2008).

<sup>2</sup> Comments of GPI on the Proposed Decision of President Peevey at 4 (Feb 2008).

<sup>3</sup> Comments of CEERT on the Proposed Decision of President Peevey at 13 (Feb 2008).

<sup>4</sup> Opening Comments of PG&E on Proposed Decision on Greenhouse Gas Regulatory Strategies at 6 (Feb 2008); Comments of SDG&E and SoCalGas on Proposed Decision at 2 (Feb 2008).

## **II. ALLOWANCES SHOULD BE ALLOCATED TO THE RETAIL SERVICE PROVIDERS FOR THE SPECIFIC PURPOSE OF PAYING FOR RENEWABLE ENERGY PROJECTS, TRANSMISSION, AND ENERGY EFFICIENCY**

Administrative and other costs should be minimized to allow ratepayer funds to go to direct emission reduction projects or programs such as renewables, transmission to reach renewable resources and energy efficiency. SMUD supports the following comments of Pacific Gas and Electric Company (PG&E),

PG&E is heartened that the PD does recognize the benefits of ensuring that allowances are allocated under a method that provides the value of the allowances to the utility customers who bear the ultimate costs of compliance.<sup>5</sup>

Similarly, San Diego Gas and Electric Company and Southern California Gas Company (SDG&E and SoCalGas) propose a method that initially allocates allowances to RSPs and "ensures that all revenues from the auction flow to the parties ultimately paying the allowance cost in the form of higher electricity prices."<sup>6</sup> The ratepayers should be receiving full value for their greenhouse gas reducing dollars. By avoiding an auction for RSPs, every ratepayer dollar goes directly to emissions reductions without the need to pay for administrative costs and fees for programs that may have a much more distant benefit to the electric ratepayer.

In addition, SMUD supports the change proposed by SDG&E and SoCalGas that "all of the proceeds from the auctioning of allowances for the electricity sector being used in ways that benefit electricity consumers in California".<sup>7</sup> Even NRDC/UCS who support a large auction advocate for auction revenues to be "primarily returned to retail providers to invest in emission reduction strategies and reduce costs to consumers."<sup>8</sup> Returning auction revenues to provide consumer benefits would be the only effective way to reduce emissions without incurring exorbitant costs to electric ratepayers.

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<sup>5</sup> PG&E at 5.

<sup>6</sup> SDG&E at 6.

<sup>7</sup> *Id.* at 7.

<sup>8</sup> NRDC/UCS at 10.

### **III. TRACKING EMISSIONS CHARACTERISTICS WITH E-TAGS IS NOT CONSISTENT WITH THEIR CURRENT USE.**

SMUD supports the comments of the M-S-R Public Power Agency ("M-S-R") regarding tracking the emission attributes of imported power with E-tags.<sup>9</sup> SMUD agrees with M-S-R that E-tags are an accurate method of tracking ownership as the power enters California but are not always an accurate measure of the emissions characteristics of the power.<sup>10</sup> SMUD has reviewed some of its E-tag data and has found similar differences. In one instance although the source specific contract information shows deliveries from a wood-waste cogeneration facility of 186,000 megawatt-hours of energy for 2007, SMUD only has one E-tag from one day showing the direct connection between the contracted source and energy delivered to SMUD for the entire year. For this source specific contract, the contractual data would provide more accurate information on the carbon content of the energy than E-tags. Thus, SMUD agrees with M-S-R in recommending that the Commissions and CARB continue this discussion of tracking or assigning emissions attributes to imported power to determine the most accurate ways to track emissions characteristics. E-tags are not a complete solution to this issue.

### **IV. THE NATURAL GAS SECTOR NEEDS TO BE A FULL PARTICIPANT IN THE GREENHOUSE GAS EMISSIONS REDUCTION PROGRAM**

Southern California Edison, the NRDC/UCS, Community Environmental Council, Environmental Defense and Southern California Public Power Authority (SCPPA) disagree with the Proposed Decision's recommendation that the natural gas sector not be included in a cap-and-trade system.<sup>11</sup> The natural gas sector should not be given a pass on reducing emissions. As we argue above, SMUD does not believe that a cap and trade program offers significant additional greenhouse gas reductions for the

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<sup>9</sup> Comments of M-S-R on Interim Opinion of Greenhouse Gas Regulatory Strategies at 4 (Feb 2008).

<sup>10</sup> *Id.*

<sup>11</sup> Comments of Southern California Edison Company on Proposed Decision of President Peevey on Greenhouse Gas Regulatory Strategies at 6 (Feb. 2008); Comments of NRDC/UCS on the Proposed "Interim Opinion on Greenhouse Gas Regulatory Strategies" at 1 (Feb. 2008); Opening Comments of the Community Environmental Council on Proposed Interim Opinion on Greenhouse Gas Regulatory Strategies at 8 (Feb 2008); Comments of Environmental Defense on the Proposed "Interim Opinion on Greenhouse Gas Regulatory Strategies" at 4 (Feb 2008); SCPPA Comments on Proposed Decision at 13 (Feb. 2008).

electric utilities and any such reductions would be out of proportion to direct programmatic reductions when administrative costs, volatility, and market dislocations are taken into consideration. However if the electric sector is required to live within a cap and participate in a market, so should the natural gas sector. SMUD is concerned this disparate treatment between the natural gas sector and the electric sector could send perverse market signals to use natural gas instead of electricity as a cost saving mechanism.

Based on the above, SMUD requests the Commissions take a second look at requiring auctions for the electric sector due to their inherent additional cost to ratepayers and their potential to inhibit large capital energy infrastructure investment. However, should an auction be used as a part of Assembly Bill 32, SMUD supports the free allocation of allowance value to RSPs in equitable proportion and direction of resultant auction rents to RSP's to be used as directed by State rule and option of RSP rate setting governing bodies. Such funds would support direct emissions reductions in construction of new renewable resources and transmission to reach those renewable resources as well as rate relief for low income ratepayers. SMUD also recommends the Commissions review the disparate treatment of the natural gas industry and whether that treatment shifts their reduction burden to the electric industry or whether such treatment creates improper incentives to use the fossil fuel natural gas instead of electricity with its ever increasing use of renewable energy.

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## **CERTIFICATE OF SERVICE**

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on all known parties to R. 06-04-009 and CEC Docket No. 07-OIIP-01 by transmitting an e-mail message with the document attached to each party named in the official service list. I served a copy of the document on those without e-mail addresses by mailing the document by first-class mail addressed as follows:

See attached service list

Executed this 4th day of March, 2008, at Sacramento, California.

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I.	THE COMMISSIONS SHOULD FOCUS ON DESIGNATED PROGRAMS THAT WILL PROVIDE THE GREATEST SUBSTANTIVE CHANGES TO THE CARBON CONTENT OF THE ENERGY SECTOR .....	1
II.	ALLOWANCES SHOULD BE ALLOCATED TO THE RETAIL SERVICE PROVIDERS FOR THE SPECIFIC PURPOSE OF PAYING FOR RENEWABLE ENERGY PROJECTS, TRANSMISSION, AND ENERGY EFFICIENCY .....	3
III.	TRACKING EMISSIONS CHARACTERISTICS WITH E-TAGS IS NOT CONSISTENT WITH THEIR CURRENT USE .....	4
IV.	THE NATURAL GAS SECTOR NEEDS TO BE A FULL PARTICIPANT IN THE GREENHOUSE GAS EMISSIONS REDUCTION PROGRAM.....	4